

Message Text

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INFO AMEMBASSY MOSCOW

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E.O. 11652: N/A

TAGS: EEWT, ENRG, UR, US, TD

SUBJECT: SOVIET-OCCIDENTAL AMMONIA AGREEMENT

REF: PORT OF SPAIN 3270 (NOTAL), MOSCOW 17052 (NOTAL)

1. IN APRIL 1973, OCCIDENTAL AND THE USSR SIGNED A BASIC AGREEMENT TO ESTABLISH IN THE USSR AN AMMONIA AND UREA MANUFACTURING COMPLEX. THE COMPLEX WILL PRODUCE FOUR MILLION TONS OF AMMONIA AND ONE MILLION TONS OF UREA ANNUALLY WHEN IT COMES ONSTREAM DURING 1977. EXPORTS CAN BEGIN IN 1978. OCCIDENTAL WILL SUPPLY SUPERPHOSPHORIC ACID (SPA) FOR AN EQUIVALENT VALUE OF AMMONIA, UREA AND POTASH.

2. BEGIN FYI-PROPRIETARY INFORMATION. ACCORDING TO
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MR. LEPARULO, EXECUTIVE VICE PRESIDENT OF OCCIDENTAL PETROLEUM, OVER THE NEXT 20 YEARS OCCIDENTAL WILL PURCHASE UP TO 1.5 MILLION TONS PER YEAR OF AMMONIA AND ONE MILLION TONS PER YEAR OF BOTH UREA AND POTASH, AND WILL SELL TO THE USSR ONE MILLION TONS PER YEAR OF SPA. THE OCCIDENTAL PURCHASES WILL SUPPLY THE SOVIET UNION WITH THE HARD CURRENCY

IT NEEDS TO PURCHASE THE ACID. CONTRACTS ARE EXPECTED TO BE NEGOTIATED SOON SO THAT DELIVERY OF SPA MAY BEGIN IN 1979. OCCIDENTAL MUST ALSO PURCHASE 600,000 TONS OF

AMMONIA PER YEAR FOR TEN YEARS UNDER A SEPARATE AGREEMENT, TO PROVIDE THE SOVIET UNION WITH HARD CURRENCY TO PAY FOR THE EQUIPMENT USED IN THE CONSTRUCTION OF THE COMPLEX. END FYI.

3. TO PARTIALLY FULFILL ITS OBLIGATION TO OFFSET THE HARD-CURRENCY COSTS OF EQUIPMENT FOR THE COMPLEX, OCCIDENTAL RECENTLY CONTRACTED TO PURCHASE FROM THE SOVIET UNION 350,000 TONS OF AMMONIA PER YEAR OVER A TEN-YEAR PERIOD. DELIVERIES WILL BEGIN IN 1978. THE BULK OF THESE PURCHASES ARE EXPECTED TO BE IMPORTED INTO THE U.S., THOUGH EXACT QUANTITIES WILL DEPEND ON MARKET CONDITIONS.

4. THE PRICE WHICH OCCIDENTAL WILL PAY FOR AMMONIA IS A NEGOTIATED ONE, AND THE DEPARTMENT HAS NO KNOWLEDGE OF WHAT HAS BEEN DETERMINED. A TASS REPORT SUGGESTS THAT 3.5 MILLION TONS OF AMMONIA OVER A TEN YEAR PERIOD WILL GENERATE ABOUT 300 MILLION DOLLARS. AN ANALYST AT INTERNATIONAL TRADE COMMISSION (ITC) SAYS AGREED PRICE IS RUMORED AT 100 DOLLARS/TON, WELL BELOW CURRENT MARKET PRICE OF ABOUT 115 DOLLARS/TON. US PRODUCTION AND CONSUMPTION OF AMMONIA ARE NOW ABOUT IN BALANCE AT 15 MILLION TONS. IMPORTS AND EXPORTS ARE NOT SIGNIFICANT. THE ITC IS CHARGED WITH MONITORING IMPORTS WHICH CAUSE MARKET DISRUPTION AND IS AWARE OF THE OCCIDENTAL-SOVIET AGREEMENT.

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5. COMMENT: WE ARE MYSTIFIED THAT WILLIAMS IS CONCERNED ABOUT POSSIBLE PRICES "WELL ABOVE" PRESENT MARKET RATES, WHETHER OR NOT THIS IS THE CASE, SINCE HIGH PRICES WOULD APPEAR TO BE IN GOTT'S INTEREST. IF GOTT HAS NOT ALREADY DISCUSSED IMPLICATIONS OF OCCIDENTAL AGREEMENT WITH AMOCO, THIS WOULD APPEAR LOGICAL PRELIMINARY TO OUR RAISING THE QUESTION WITH GOTT BILATERALLY. ALSO, DEPARTMENT WAS UNDER THE IMPRESSION THAT W.R. GRACE WAS U.S. FIRM INVOLVED WITH GOTT IN PRODUCTION OF AMMONIA. ANY CLARIFICATION EMBASSY COULD PROVIDE WOULD BE USEFUL.

6. PRESS GUIDANCE. EMBASSY SHOULD NOT SEEK TO INTERPRET PUBLICLY THE COMMERCIAL IMPACT OF PRIVATE AGREEMENTS SUCH AS THIS ONE. OCCIDENTAL HAS NOT ISSUED A PRESS RELEASE. EMBASSY CAN MAKE FOLLOWING POINTS TO PRESS IN RESPONSE TO CONCERNS EXPRESSED IN WILLIAMS' SPEECH IF IT BELIEVES IT WILL BE HELPFUL TO DO SO:

-----A. PRIVATE EAST-WEST TRANSACTIONS, SUCH AS THE
OCCIDENTAL AMMONIA DEAL, MAY BE AN INDIRECT RESULT OF THE
IMPROVEMENT IN RELATIONS BETWEEN U.S. AND USSR IN RECENT
YEARS, BUT THEY DO NOT REFLECT A SPECIFIC USG POLICY. USG

DID NOT PARTICIPATE IN THE NEGOTIATIONS AND DOES NOT KNOW
DETAILS.

-----B. USG IS NOT HOSTILE TO GOTT PLANS TO DEVELOP ITS
ENERGY INDUSTRIES. USG FAVORS AN INCREASE IN SUCH
INDUSTRIES WORLDWIDE, PARTICULARLY IN LESS DEVELOPED
COUNTRIES.
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